

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON NQUTHU MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Nquthu Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nquthu Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 2012-13 in the financial statements of the Nquthu Municipality at, and for the year ended, 30 June 2012.

Material losses

9. As disclosed in note 54 to the financial statements, material losses on electricity to the amount of R4,18 million (11,75 million kWh), were incurred mainly as a result of illegal connections and tampering.

Underspending on the budget

10. As disclosed in the statement of comparison of budget and actual amount the municipality has materially underspent its overall budget by R8.60 million.

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

12. The supplementary information set out on pages 47 to 57 do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for Managing Programme Performance Information* (FMPPI).

The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

16. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

17. Measures to improve performance for a total of 25% of the planned targets not achieved for the year were not reflected in the annual performance report as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This was due to the lack of adequately and sufficiently skilled resources and monitoring of performance.

Consistency

Reported indicators and targets not consistent with planned indicator and targets

18. A total of 25% of the reported indicators are not consistent with the indicators as per the approved integrated development plan and a total of 23% of the reported targets are not consistent with the targets as per the approved integrated development plan as required by section 41(1)(c) of the MSA. This was due to the lack of adequately and sufficiently skilled resources and monitoring of performance.

Changes to indicators and targets not approved

19. A total of 75% of objectives, indicators and targets reported in the annual performance report were changed in-year without following the process as prescribed in section 34 of the MSA and without adoption by the council of the municipality. This was due to the lack of adequately and sufficiently skilled resources and monitoring of performance.

Measurability

Performance targets not specific

20. A total of 54% of the targets were not specific in clearly identifying the nature and the required level of performance as required by the FMPPI. This was due to the fact that management was aware of the requirements but did not receive the necessary training to enable application of the principles.

Performance targets not measurable

21. The required performance was measured for a total of 54% of the targets as required by the FMPPI. This was due to the fact that management was aware of the requirements but did not receive the necessary training to enable application of the principles.

Performance targets not time bound

22. A total of 69% of the targets were not time bound in specifying a time period or deadline for delivery as required by the FMPPI. This was due to the fact that management was aware of the requirements but did not receive the necessary training to enable application of the principles.

Performance indicators not well defined

23. A total of 67% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently as required by the FMPPI, this was due to the fact that management was aware of the requirements but did not receive the necessary training to enable application of the principles.

Indicators and measures not verifiable

24. A total of 67% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Reliability of information

Solid waste, buildings, electricity, water and sanitation, roads and storm water

25. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to solid waste, buildings, electricity, water and sanitation, roads and storm water development objectives. This was due the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the solid waste, buildings, electricity, water and sanitation, roads and storm water development objectives.

Compliance with laws and regulations

26. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My finding on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA is as follows:

Annual financial statements

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were subsequently corrected by management, which resulted in the financial statements receiving an unqualified audit opinion.

Internal control

28. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Financial and performance management

29. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant, and accurate information is prepared, accessible and available to support financial and performance reporting.

Auditor-General
Pietermaritzburg

29 November 2013



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence